

DIS 12/21/93

Regional Inspector General for Audit
Cairo, Egypt

Audit of Ministry of Public Works and Water Resources
(MPWWR) Local Expenditures Incurred Related to Project
Implementation Letter (PIL) No. 99, under the Regional
Irrigation Improvement (RII) Component of the
USAID/Egypt Irrigation Management Systems (IMS) Project
No. 263-0132

Report No. 6-263-94-008-N
December 21, 1993



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REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF
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INFORMATION IS RELEASED TO THE PUBLIC.**

**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT

December 21, 1993

MEMORANDUM FOR D/USAID/Egypt, *Henry H. Bassford*
FROM : RIG/A/Cairo, *Philippe L. Darcy*
SUBJECT : Audit of Ministry of Public Works and Water Resources (MPWWR) Local Expenditures Incurred Related to Project Implementation Letter (PIL) No. 99 under the Regional Irrigation Improvement (RII) Component of the USAID/Egypt Irrigation Management Systems Project No. 263-0132

The attached report dated July 8, 1993, by Price Waterhouse presents the results of a financial audit of the Regional Irrigation Improvement (RII) Component locally incurred costs under the Irrigation Management Systems Project No. 263-0132 funded by USAID/Egypt. RII is designed to remodel selected irrigation canal commands and strengthen the MPWWR technical, construction and development assistance and economic analysis capabilities.

We engaged Price Waterhouse to perform a financial audit of RII's locally incurred expenditures of LE2,063,810 (equivalent to \$683,382) for the period July 1, 1989 through December 31, 1992. The purpose of the audit was to evaluate the propriety of costs incurred during that period. In performing the audit, Price Waterhouse evaluated RII's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Price Waterhouse questioned \$146,773 in costs billed to USAID by RII (including \$32,319 of unsupported costs). The questioned costs included salary expenses not supported by receipts or not authorized in the budget, custom storage fees for a vehicle before release at LE20 a day for 722 days, purchase of equipment in excess of project needs and operating expenses for vehicles not used in the project. Price Waterhouse noted internal control weaknesses related to the internal accounting control system for its satellite locations and headquarters office, control over fixed assets, segregation of job functions, employee time and attendance data and monitoring of vehicle maintenance. Additionally, they noted one instance of noncompliance for costs incurred but not related to the project's objectives.

U.S. Mailing Address
USAID-RIG/A/C Unit 64902
APO AE 09839-4902

Tel. Country Code (202)
357-3909
Fax # (202) 355-4318

#106, Kasr El Aini St.
Cairo Center Building
Garden City, Egypt

a'

Price Waterhouse has reviewed RII's response to the findings. Where applicable they made adjustments in their reports or provided further clarification of their position. For those items not addressed, the response provided by RII has not changed their understanding of the facts underlying the questioned costs of the Fund Accountability Statement or the reportable conditions in the Reports on Internal Controls and Compliance.

The following recommendations are included in the Office of Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$146,773 consisting of ineligible costs of \$114,454 and unsupported costs of \$33,319 as detailed on pages 13 through 19 of the audit report.

This recommendation is considered unresolved and can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained. The recommendation can be closed when any amounts determined to be owed to USAID are paid by RII.

Recommendation No. 2: We recommend that USAID/Egypt require RII to address the inadequate internal control procedures as detailed on pages 23 through 34 of the report.

This recommendation is considered "resolved" as USAID/Egypt has requested RII to address the internal control weaknesses identified in the report. The recommendation can be closed when RIG/A/Cairo has assessed RII's response and USAID/Egypt's follow-up for adequacy.

Recommendation No. 3: We recommend that USAID/Egypt require RII to address the non-compliance issue as detailed on page 37 of the audit report.

This recommendation is considered "resolved" as USAID/Egypt has requested RII to address its compliance deficiency identified in the report. The recommendation can be closed when RIG/A/Cairo has assessed RII's response and USAID/Egypt's follow-up for adequacy.

Please advise this office within 30 days of any actions planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Price Waterhouse and to our office.

b.

**MINISTRY OF PUBLIC WORKS
AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER
NUMBER 99 RELATED TO REGIONAL IRRIGATION
IMPROVEMENT PROJECT UNDER USAID/EGYPT
IRRIGATION MANAGEMENT SYSTEMS PROJECT
NO. 263-0132**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM JULY 1, 1989
THROUGH DECEMBER 31, 1992**

MINISTRY OF PUBLIC WORKS
AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER
NUMBER 99 RELATED TO REGIONAL IRRIGATION
IMPROVEMENT PROJECT UNDER USAID/EGYPT
IRRIGATION MANAGEMENT SYSTEMS PROJECT
NO. 263-0132

FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION
FOR THE PERIOD FROM JULY 1, 1989
THROUGH DECEMBER 31, 1992

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J.

**MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NUMBER 99
RELATED TO THE REGIONAL IRRIGATION IMPROVEMENT
UNDER USAID/EGYPT IRRIGATION
PROJECT MANAGEMENT SYSTEMS PROJECT NO. 263-0132**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM JULY 1, 1989
THROUGH DECEMBER 31, 1992**

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4. Road 261.
New Maadi,
Cairo, Egypt

TELEPHONE 3520 123 3530 837
FAX (02) 3530 915
TELEX 20121 PW UN
23432 PW UN
TELEGRAPH PRICEWATER
CAIRO C.R 226786

Price Waterhouse



October 31, 1993

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

Dear Mr. Darcy:

This report presents the results of our financial-related audit of project costs incurred by the Ministry of Public Works and Water Resources ("MPWWR") on Project Implementation Letter ("PIL") No. 99 related to the Regional Irrigation Improvement ("RII") project under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project No. 263-0132 ("umbrella grant agreement") funded by USAID/Egypt. The audit encompassed all project costs incurred for the period from July 1, 1989 through December 31, 1992.

Background

The IMS Project is designed to assist the Egyptian Government in improving the operating efficiency of the total irrigation system and strengthening the government's operational, maintenance, and planning capabilities. Specific objectives are to (1) plan and design a country-wide structural replacement program, (2) plan and improve operations and maintenance in the irrigation system, (3) support feasibility studies and management and technical development programs and (4)



provide other irrigation-related support. The umbrella grant agreement, originally dated September 22, 1981 and amended eight times, has a project completion date of September 21, 1995 with financing of 313 million US dollars.

The RII project component represents one of ten project components of the IMS Project No. 263-0132 and is administered by the MPWWR. The purpose of this component is to establish and field test an organizational structure within the MPWWR capable of providing technical and construction assistance, economic analysis, development assistance, and user involvement to remodel selected irrigation canal commands. PIL No. 99 has been amended six times through September 10, 1992 and provides a budget of LE 2,725,751 for the RII project through the fiscal year ended June 30, 1993.

The RII project employs approximately eighty persons, most of whom are drivers and field staff. RII maintains a central project office in Shoubra and six satellite offices in Isna, Fayoum, Damanhour, Menia, Tanta, and Zagazig.

Audit Objectives and Scope

The objective of this engagement was to perform a financial-related audit of project costs incurred by the MPWWR on PIL No. 99 related to the RII project under USAID/Egypt IMS Project No. 263-0132 for the period from July 1, 1989 through December 31, 1992. Specific objectives were to determine whether:



1. the fund accountability statement for the RII project presents fairly, in all material respects, project costs incurred and reimbursed under PIL No. 99 in conformity with generally accepted accounting principles or another comprehensive basis of accounting;
2. the costs reported as incurred by the RII project under PIL No. 99 are in fact allowable, allocable, and reasonable in accordance with the terms of the umbrella grant agreement, the PIL and USAID/Egypt regulations;
3. the internal controls, accounting systems, and management practices of the RII project are adequate for USAID/Egypt agreements; and
4. the RII project is in compliance, in all material respects, with the umbrella grant agreement, the PIL, and applicable laws and regulations.

Preliminary planning and review procedures were started in April, 1993 and consisted of discussions with the Regional Inspector General for Audit in Cairo ("RIG/A/C") personnel, MPWWR RII project officials and review of the applicable umbrella grant agreement and PIL No. 99. Fieldwork commenced in May, 1993 and was completed in July, 1993.

The scope of our financial-rel: ' audit was all project costs incurred by the MPWWR on PIL No. 99 related to the RII project and reimbursed by USAID/Egypt during the



period from July 1, 1989 through December 31, 1992. On a judgmental basis, we selected incurred costs of LE 1,074,953 out of total incurred costs of LE 2,063,810.

Our tests of project costs incurred and reimbursed under PIL No. 99 included, but were not limited to, the following:

1. reconciling RII's project accounting records to invoices issued to USAID/Egypt, and testing of project costs incurred and reimbursed for allowability, allocability, reasonableness, and appropriate support;
2. determining that personnel costs were appropriate and conformed with the terms of the umbrella grant agreement, the PIL, and relevant procedures and regulations;
3. determining that per diem and transportation charges were adequately supported and approved; and
4. establishing the adequacy of the RII's control over USAID/Egypt funded project equipment.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.



We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As part of our examination we made a study and evaluation of relevant internal controls and reviewed compliance with applicable laws and regulations.

Results of Audit

Fund accountability statement:

Our audit identified \$ 146,773 in questionable costs, including \$ 32,319 in unsupported costs.

Internal control structure:

We recommend that the RII project adopt procedures to 1) develop and maintain standardized internal accounting control systems for its satellite offices, 2) establish and maintain proper accounting control over fixed assets, 3) segregate incompatible job functions, 4) improve the



headquarters' accounting system, 5) require employee time and attendance data to be properly documented, reviewed and approved before disbursements are made, 6) review invoices for mathematical accuracy and cancel same upon payment, 7) improve accounting controls over cash, and 8) establish and maintain a proper system to monitor vehicle maintenance.

Compliance with agreement terms and applicable laws and regulations:

We noted one material instance of noncompliance related to the incurrence of costs unrelated to the obtainment of the project's objectives.

Management Comments

RII project management comments have been obtained and are included in Appendix C of this report. We have provided further clarification of our position, where necessary, in Appendix D of this report or have adjusted the final report.

This report is intended solely for use by the United States Agency for International Development and may not be suitable for any other purpose.

Pricewaterhouse

4, Road 261,
New Maadi,
Cairo, Egypt

TELEPHONE 3520 123, 3530 837
FAX (02) 3530 915
TELEX 20121 PW UN
23432 PW UN
TELEGRAPH PRICEWATER
CAIRO C.R. 226786

Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS

July 8, 1993

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the accompanying fund accountability statement of project costs incurred by the Ministry of Public Works and Water Resources ("MPWWR") on Project Implementation Letter ("PIL") No. 99 related to the Regional Irrigation Improvement ("RII") project under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project No. 263-0132 ("umbrella grant agreement") funded by USAID/Egypt for the period from July 1, 1989 through December 31, 1992. The fund accountability statement is the responsibility of RII's management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test



basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As described in Note 5, the accompanying fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.



Included in the accompanying fund accountability statement are questionable costs of \$ 146,773. The basis for questioning these costs is more fully described in the "Fund Accountability Statement - Audit Findings" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, project costs incurred by the MPWWR on PIL No. 99 related to the RII project under USAID/Egypt IMS Project No. 263-0132 for the period from July 1, 1989 to December 31, 1992 in conformity with the basis of accounting described in Note 5.

Our audit was conducted for the purpose of forming an opinion on the fund accountability statement described in the first paragraph. The supplemental information included in Appendices A and B is presented for purposes of additional analysis and not as a required part of the basic fund accountability statement. Such information has been subjected to the auditing procedures applied in the audit of the basic fund accountability statement and, in our opinion, is fairly stated, in all material respects, in relation to the basic fund accountability statement taken as a whole.

Pricewaterhouse

**MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NUMBER 99
RELATED TO THE REGIONAL IRRIGATION IMPROVEMENT PROJECT
UNDER USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132**

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM JULY 1, 1989 THROUGH DECEMBER 31, 1992

	<u>Budget</u> <u>(Note 2)</u>	<u>Actual</u> <u>(Note 2)</u>	<u>Reclassification</u> <u>(Note 3)</u>	<u>Questioned Costs</u>		<u>Audit</u> <u>Findings</u> <u>Reference</u>
				<u>Ineligible</u> <u>(Note 4)</u>	<u>Unsupported</u> <u>(Note 4)</u>	
Receipts		\$ 849,463				
Expenditures:						
Support personnel	\$ 97,642	75,707	\$ (26)	\$ 18,289	\$ 2,494	Item A, Pg 14
Vehicle operation and maintenance	212,246	155,870	(649)	11,082	6,014	Item B, Pg 16
Office supplies	43,780	28,383	15	72	30	Item C, Pg 16
Office equipment and furniture	197,771	166,084	-	83,775	1,993	Item D, Pg 17
Office renovation	27,663	7,471	20	-	-	
Vehicle insurance	-	-	-	-	-	
Travel and per diem	250,904	211,078	(64)	232	17,902	Item E, Pg 18
Training	1,244	634	-	-	-	
Other support costs	<u>71,315</u>	<u>38,155</u>	<u>704</u>	<u>981</u>	<u>-</u>	Item F, Pg 18
Total expenditures	\$ <u>902,565</u>	<u>683,382</u>	\$ <u>-</u>	<u>114,431</u>	<u>28,433</u>	
Other income				23	-	Item G, Pg 18
Cash:						
Per fund accountability statement		166,081				
Per bank		<u>162,195</u>				
Cash balance shortage		\$ <u>3,886</u>		<u>-</u>	<u>3,886</u>	Item H, Pg 19
Total questioned cost				\$ <u>114,454</u>	\$ <u>32,319</u>	

The accompanying notes are an integral part of this fund accountability statement.

**MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
REGIONAL IRRIGATION IMPROVEMENT PROJECT**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF AUDIT:

The fund accountability statement includes all costs incurred by the MPWWR on PIL No. 99 related to the RII project under USAID/Egypt IMS Project No 263-0312 and reimbursed by USAID/Egypt for the period from July 1, 1989 through December 31, 1992.

NOTE 2 - SOURCE OF DATA

The column labeled "Budget" represents the USAID/Egypt approved budget for PIL No. 99 based on the most recent budget amendment dated September 10, 1992. The budget is presented for informational purposes only.

The column labeled "Actual" is the responsibility of RII project management and represents cumulative project costs incurred by the MPWWR on PIL No. 99 related to the RII project under USAID/Egypt IMS project No. 263-0132 and reimbursed by USAID/Egypt for the period from July 1, 1989 through December 31, 1992.

NOTE 3 - RECLASSIFICATION:

Certain costs included in the fund accountability statement have been reclassified in order to reflect proper classification of costs incurred.

NOTE 4 - QUESTIONED COSTS:

Questioned costs are presented in two separate categories - ineligible and unsupported costs - and consist of audit

findings proposed on the basis of the terms of the PIL, the umbrella grant agreement and USAID/Egypt regulations. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, are unreasonable, or prohibited by the PIL, the umbrella grant agreement, or applicable laws and regulations. Costs in the column labeled "Unsupported" are also formally included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior USAID/Egypt approvals or authorizations. All questioned costs are detailed in the "Fund Accountability Statement - Audit Findings" section of this report.

NOTE 5 - BASIS OF PRESENTATION:

The fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 6 - FOREIGN EXCHANGE

Costs incurred in Egyptian pounds have been converted to U.S. dollars at the average monthly exchange rate during the period under audit of 3.02 Egyptian pounds to one U.S. dollar.

**MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
REGIONAL IRRIGATION IMPROVEMENT PROJECT**

**FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS**

Our audit procedures identified the following invoiced costs that are ineligible or unsupported:

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Support personnel:		
(1) Temporary daily contract employee salaries. Only full-time salaried employees are specified in the project budget.	\$ 1,482	\$ -
(2) Error resulting in an over billing to USAID/Egypt.	-	47
(3) Error resulting in double billing to USAID/Egypt.	-	422
(4) Salaries and other payroll-related expenditures not supported by receipts, payroll sheets, or other source documents.		
(Based on supporting documentation received as part of management comments, this finding has been reduced from the \$ 2,075 initially questioned.)	-	1,963

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Support personnel (Cont.):		
(5) Salaries for two engineers not authorized for in the budget agreement.	\$ 1,124	\$ -
(6) Employer's share of social insurance. GOE taxes are ineligible for USAID/Egypt reimbursement.	2,909	-
(7) Consultant's salary not provided for in the budget.	9,271	-
(8) Salaries paid to individuals without contracts with the project.		
(Based upon supporting documentation received as part of management comments, this finding has been reduced from the \$ 1,172 initially questioned.)	-	62
(9) Extra effort reward for drivers not approved by USAID/Egypt.	38	-
(10) Numerous overtime and employee bonuses not approved by USAID/Egypt.	<u>3,465</u>	<u>-</u>
Total support personnel	<u>18,289</u>	<u>2,494</u>

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<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>

B. Vehicle operation and maintenance:

(1) Error resulting in an over billing to USAID/Egypt.	\$ -	\$ 138
(2) Traffic fines for drivers.	40	-
(3) Stamp Tax payments related to car license renewal. GOE taxes are ineligible for USAID/Egypt reimbursement.	45	-
(4) Vehicle # 122082 was retained in the Alexandria customs office for 722 days @ LE 20 per day before being released by the RII project. Number of days taken due to negligence is considered unreasonable. The maximum number of days reasonably needed to release a car from customs is three.	4,762	-
(5) Numerous car license renewal fees not supported by source documents.	-	1,285
(6) Expenditures not supported by source documents.		

(Based upon supporting documentation received as part of management comments,

Questioned Costs
Ineligible Unsupported

Item Description

B. Vehicle operation and maintenance (Cont.):

this finding has been reduced from the \$ 4,841 initially questioned.)

\$ - \$ 4,591

(7) Operation expenses for 15 cars not used by the project. Amount questioned is estimated based on the following calculation: 15/375 (cars in the RII vehicle maintenance pool including the 15 not used in the project) = 4% x total vehicle maintenance expenditures of \$ 155,870.

6,235 -

Total vehicle operation and maintenance

11,082 6,014

C. Office supplies:

(1) Numerous sales tax payments. GOE taxes are ineligible for USAID/Egypt reimbursement.

72 -

(2) Unsupported.

- 30

Total office supplies

72 30

D. Office equipment and furniture:

(1) Cost of 22 fax machines.

(The amount of \$ 83,775 was initially questioned as unsupported. As part of management comments,

Questioned Costs
Ineligible Unsupported

Item Description

D. Office equipment and
furniture (Cont.):

supporting documentation represented MPWWR as the purchaser. The original amount of \$ 83,775 continues to be questioned based on reasonableness. As there are only six satellite offices included in the RII project, the purchase of 22 fax machines is not a reasonable use of project funds. In addition, we were not able to physically inspect the fax machines to determine their existence.)	\$ 83,775	\$ -
(2) Purchase of office furniture from Mobica Co. not supported with invoices.		
(Based upon supporting documentation received as part of management comments, this finding has been reduced from the \$ 4,442 initially questioned.)	-	-
(3) Computer maintenance services not supported by maintenance contracts.	<u>-</u>	<u>1,993</u>
Total office equipment and furniture	<u>83,775</u>	<u>1,993</u>

<u>Item Description</u>	<u>Questioned Costs</u> <u>Ineligible Unsupported</u>	
E. Travel and per diem (Cont.):		
(1) Error resulting in an over billing to USAID/Egypt.	\$ -	\$ 12
(2) Unapproved travel expenditures.	-	231
(3) Numerous unsupported expenditures.	-	17,659
(4) Bonuses paid to drivers.	<u>232</u>	<u>-</u>
Total travel and per diem	<u>232</u>	<u>17,902</u>
F. Other support costs:		
(1) Numerous stamp taxes and other miscellaneous ineligible items. GOE taxes are ineligible for USAID/Egypt reimbursement.	484	-
(2) T.V. set for a furnished flat in Minia should be included in furnished flat-not as an additional purchase.	<u>497</u>	<u>-</u>
Total other support costs	<u>981</u>	<u>-</u>
G. Other income:		
(1) Training costs related to fiscal year 7/1/91 through 6/30/92 which should be reimbursed by the GOE according to the PIL No. 99, Amendment 4.	<u>23</u>	<u>-</u>

Item Description

Questioned Costs
Ineligible Unsupported

H. Cash:

- (1) Amount paid from the USAID/
Egypt bank account, but not
supported with expenditure
records. This amount does
not include expenditures
made for which a legitimate
receivable from the GOE has
been recorded.

\$ - \$ 3,886

TOTAL QUESTIONED COSTS

\$ 114,454 \$ 32,319

\$ 146,773

4. Road 261,
New Maadi,
Cairo, Egypt

TELEPHONE 3520 123, 3530 837
FAX (02) 3530 915
TELEX 20121 PW UN
23432 PW UN
TELEGRAPH PRICEWATER
CAIRO C.R. 226786

Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS
ON INTERNAL CONTROL STRUCTURE

July 8, 1993

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statement of project costs incurred by the Ministry of Public Works and Water Resources ("MPWWR") on Project Implementation Letter ("PIL") No. 99 related to the Regional Irrigation Improvement ("RII") project under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project No. 263-0132 ("umbrella grant agreement") funded by USAID/Egypt for the period from July 1, 1989 through December 31, 1992, and have issued our report thereon dated July 8, 1993.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.



We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

In planning and performing our audit of the RII project, we considered its internal control structure related to PIL No. 99 in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of the RII project is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and in



accordance with the terms of the agreements, and recorded properly to permit the preparation of reliable financial reports and to maintain accountability over the entity's assets. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of cash receipts and disbursements, fund custody, project accounting, equipment and supplies procurement and safeguarding of assets. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being



audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed the following conditions which we believe constitute material weaknesses:

MATERIAL WEAKNESSES

Standardized Internal Accounting Control Systems For The Satellite Offices Need To Be Developed And Monitored Periodically By The RII Project Headquarters Office. Specifically, we noted that:

- . Controls over the safeguarding of cash and productive assets in the satellite offices are not adequate.
- . Periodic audits of satellite office expenditures are not performed.
- . Satellite office employees do not account for their time with appropriate documentation.
- . There is often a significant time delay in the reconciliation of satellite office advance accounts by the headquarters office.

Recommendation 1

A Standardized Internal Accounting Control System Should Be Developed For The Satellite Offices. The RII Headquarters Office Should Assist In The Development And Implementation Of The System. Additionally, If Required, They Should Conduct



Training Courses For The Satellite Office Employees On How To Effectively Utilize The System. Specifically, we recommend the following:

- . Management should properly segregate duties in the cash area so that not one individual is responsible for preparing, reviewing, and approving expenditures and surprise cash counts should be completed on a regular basis.
- . Fidelity coverage should be purchased to include employees with cash handling responsibilities. Note that fidelity coverage is not a substitute for an adequate system of controls. The RII project management must be able to detect irregularities and prove the loss before insurance claims will be honored.
- . Physical inventories should be conducted on a periodic or rotating basis. Physical inventories may be limited to items where risk of loss or misuse is significant. When differences between the recorded and existing assets are found to exist, appropriate action should be taken to correct the discrepancy and to eliminate its cause.
- . A comprehensive insurance policy should be purchased for all significant assets in which the satellite office assumes the responsibility for maintenance and safekeeping.
- . The RII project headquarters office should conduct periodic audits of satellite office expenditures. This will help ensure that satellite office expenditures are valid and subject to USAID/Egypt reimbursement.



- . Time sheets or other source documents should be utilized to account for satellite office employees' time. Time sheets should be reviewed and approved by each individual's immediate supervisor.

- . Advance account subsidiary records should be maintained and reconciled to the cash disbursement records and expense reports each month and the reconciliations should be reviewed and approved by the Financial Manager. Expenditures should not be billed to USAID/Egypt until properly reconciled.

To facilitate proper reconciliation, the following procedures and controls should be implemented:

- * A limited number of bonded employees at each satellite office should be allowed to sign for advances.

- * The headquarters in-charge accountant should not accept unapproved expense reports and should not issue advances without the signature of the satellite office official receiving the advance.

- * The headquarters in-charge accountant should initial all advance request forms and expense reports.

- * Satellite office personnel expense reports should be summarized monthly and compared to the advance subsidiary records. Differences should be investigated by the Financial Manager.



- * Excessive advance balances should be refunded to the RII project headquarters office. Further, additional advances should not be granted until a reconciliation of prior advances is completed.

* * * * *

Weaknesses Exist In The Safeguarding And Control Of Fixed Assets. In particular, we noted that:

- . Detailed fixed asset registers are not maintained for office equipment and furniture.
- . Expenditures for repairs, spare parts and supplies are charged to the same budget line item as the purchased asset without regard to the capital nature of the item.
- . Physical counts of assets are not performed.
- . Certain assets such as fax machines are used for other than project-related purposes. RII has not established control over its assets as to their location and use.
- . Purchased fixed assets were not identifiable with an appropriate inventory tag or other identification mechanism. The required USAID stickers were not affixed on the majority of the project's office equipment and furniture.
- . Security procedures surrounding RII headquarters assets and building are not followed regularly and assets are uninsured. For example, doors are not locked nightly. Appropriate physical safeguards can contribute substantially to the control of assets which are susceptible to loss through neglect, theft, or damage.



Recommendation 2

In Order To Improve Internal Accounting Controls Over Fixed Assets, We Recommend The Following:

- . Detailed fixed asset records for office equipment and furniture should be prepared from the expenditures per the general ledger and include asset description, location, identification number, date of acquisition and installed cost. Only capital assets should be recorded in the fixed asset register.
- . A separate general ledger account should be created to record all non-capital assets, repairs and supplies.
- . A complete fixed asset physical inventory should be taken currently and updated on a periodic or rotating basis. If a difference between the recorded and existing fixed assets occurs, appropriate action should be taken to correct the discrepancy and to eliminate its cause. Unlocatable fixed assets or assets not being utilized directly by the project should be reported to USAID/Egypt.
- . Fixed assets should be appropriately tagged for subsequent comparison to the detailed fixed asset records and to provide physical control over the related assets. The required USAID/Egypt sticker should be affixed to comply with USAID/Egypt marking regulations.
- . Fixed assets should be stored in suitable enclosed locations and access limited. Appropriate requisitioning procedures should be followed to issue project assets only to authorized employees and for project-related activities.



- . A comprehensive insurance policy should be purchased for all significant assets in which the RII project assumes the responsibility for maintenance and safeguarding.

* * * * *

Improper Segregation Of Duties Exists In The Areas Of
1) Invoice Receiving, Voucher Preparation, Voucher Payment,
General Ledger Recording, And Billing Preparation, 2)
Preparation And Review Of Bank Reconciliations And 3) Cash
Custody And Access To Bank Accounts. We noted that:

- . The same accounting personnel are responsible for receiving invoices, preparing and processing vouchers, recording amounts in the general ledger and preparing payment and billing documentation. These functions, if performed by the same individual, may foster an environment in which payment of unallowable, inaccurate, or unauthorized expenditures may occur.
- . The same accounting personnel prepare bank reconciliations, act as official signatories on the bank accounts, and are responsible for cash records. Effective internal control practices dictate that bank reconciliation responsibilities be segregated from other cash functions.

Recommendation 3

We Recommend That The Incompatible Functions Noted Above Be Segregated. Specifically, we recommend the following:



- . The responsibilities for receiving invoices, processing payments vouchers, recording transactions in the general ledger, and preparing payment and billing documentation bedivided among the project accountants so that no one person performs more than one of these tasks. A member of the accounting staff should be taught proper bank reconciliation procedures so that an individual independent of the bank signatories may perform the reconciliations. The completed reconciliation should be reviewed by the Financial Manager and approved by the Project Director.

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We also noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, or summarize, and report financial data consistent with the assertions of management in the fund accountability statement. Our audit disclosed the following reportable conditions:

REPORTABLE CONDITIONS

The System Of Internal Accounting Controls Surrounding The Accounting Activities Of The RII Project Contains Several Weaknesses. In particular, we noted the following:



- . The present document filing system is in need of improvement. We noted an overall disorganized appearance of the record storage area resulting in numerous misplaced supporting documents. During our testing of transactions, the RII project staff were unable to locate numerous documents.

- . Accounting entries, in all cases, are not adequately described and journal voucher numbers are not utilized to assist in tracing entries to the related supporting documentation.

- . The RII Project Director's review of the general ledger, vouchers, or USAID/Egypt billings is not evidenced.

A well-designed and functioning system of internal controls is required of all projects financed by USAID/Egypt. The weaknesses noted in the current system of internal accounting control may reduce the system's ability to adequately monitor and control the processing, accumulating and reporting of financial information to USAID/Egypt.

As a result, it was difficult to trace the RII project accounting records to USAID/Egypt billings and supporting documentation without the assistance of the RII project accountant. Consequently, auditing and accounting for the RII project's financial activity was unnecessarily laborious and time consuming.

Recommendation 4

The RII Project Staff Should Adopt An Accounting System Which Meets U.S. Government Accounting Standards And Requirements. Specifically the following goals or objectives should be achieved:



- . A filing system should be designed specifically for the RII project's operations that is documented, sufficiently controlled, and tracks documents or files throughout the transaction process.
- . The present general ledger system should be better utilized to ensure that all transactions are properly accumulated, classified, and summarized in the accounts including proper account coding to allow for tracing to supporting documentation.
- . The RII Project Director should acknowledge his review of all accounting related activities.

* * * * *

Support Staff And Project Consultants Are Not Required To Complete Time sheets.

During our audit we noted that support staff and consultants do not complete timesheets. As a result, project management is not able to monitor time or employee effort spent for project activities or ensure that the project employs only those resources necessary to achieve its goals.

Recommendation 5

We Recommend That The RII Project Implement A Policy Requiring That Timesheets Or Similar Source Documents Be Completed For All Support Staff And Project Consultants To Include Information As To Time Spent Among The Various Project Activities. Timesheets should be reviewed and approved by each individual's immediate supervisor. Proper time records



will assist the RII project management in effectively assigning and utilizing human resources and will also facilitate the project's future financial and performance audits.

* * * * *

Invoices Are Not Checked For Mathematical Accuracy And Are Not Properly Defaced With A "Paid" Stamp Prior To Payment.

These weaknesses may allow an invoice that contains mathematical errors to be inadvertently processed for payment or allow the same invoice to be paid more than once. We noted that many satellite location invoices contained mathematical errors. Additionally, although the project utilizes a "paid" stamp, it is used incorrectly - many documents are stamped "paid" regardless of whether or not the invoice has been paid.

Recommendation 6

We Recommend That All Invoices Be Checked For Mathematical Accuracy And This Procedure Be Documented By The RII Project Accountant. Also, Only Those Documents Relating To A Paid Invoice Should Be Defaced With A "Paid" Stamp At The Time They Are Processed For Payment.

* * * * *

Internal Accounting Controls Surrounding Cash Should Be Strengthened. Specifically, we noted that:

- . Fidelity insurance is not maintained for employees with cash handling responsibilities.



- . Cash remittances received directly at the RII project are not listed and restrictively endorsed.
- . Bank account reconciliations are not approved by the Project Director.
- . Surprise cash counts are not conducted.

Recommendation 7

In Order To Improve Internal Controls Surrounding Cash, We Recommend The Following:

- . Fidelity coverage should be obtained and include all employees or officials with cash handling responsibilities. Fidelity coverage is not a substitute for an adequate system of internal controls. The RII project must be able to detect irregularities and prove the loss before insurance claims will be honored.
- . All cash remittances received directly at the RII project should be listed and restrictively endorsed by an individual independent of other cash and accounts receivable functions and then sent to accounting. This list should then be subsequently checked against the validated bank deposit to ensure that all receipts were deposited on a timely basis.
- . Bank reconciliations should be reviewed and approved by a responsible official, who is also independent of all cash processing and recording activities.
- . Surprise cash counts should be conducted on a regular basis.

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The RII Project Does Not Maintain A Proper System To Monitor Vehicle Maintenance.

A file for each project vehicle is maintained listing repairs performed for that particular vehicle, however, no cost data is captured. This system may allow RII project management to bill USAID/Egypt for cars not utilized for project purposes. Further, RII management is unable to monitor maintenance costs by vehicle. These weaknesses reduce RII's control over vehicle operation and maintenance costs. Consequently, we were unable to isolate vehicle operation and maintenance costs allocable to vehicles not used for the project.

Recommendation 8

We Recommend That The RII Project Management Prepare A Monthly Vehicle Maintenance Plan To Reduce The Possibility Of Excessive Costs Incurred Associated With Duplicate Or Unnecessary Service Or Repairs. This plan should include cost plan estimates compared with actual. Costs not allocable to the RII project should not be paid by RII.

This report is intended for the information of the RII project management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

Pria Waterhouse

4. Road 261.
New Maadi.
Cairo, Egypt

TELEPHONE 3520 123 3530 837
FAX (02) 3530 915
TELEX 20121 PW UN
23432 PW UN
TELEGRAPH PRICEWATER
CAIRO C.R. 226786

Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS AND REGULATIONS

July 8, 1993

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statement of project costs incurred by the Ministry of Public Works and Water Resources ("MPWWR") on Project Implementation Letter ("PIL") No. 99 related to the Regional Irrigation Improvement ("RII") project under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project No. 263-0132 ("umbrella grant agreement") funded by USAID/Egypt for the period from July 1, 1989 through December 31, 1992, and have issued our report thereon dated July 8, 1993.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to



obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

Compliance with laws, regulations, contracts and grants applicable to the RII project is the responsibility of RII project management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of RII's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.



Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in laws, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the following material instance of noncompliance:

- A. **THE RII PROJECT SPENT \$ 83,775 TO PURCHASE 22 FAX MACHINES FOR ITS SIX LOCATIONS (12% OF ACTUAL EXPENDITURES). THIS PURCHASE IS CONSIDERED UNREASONABLE AND NOT IN FURTHERANCE OF PROJECT OBJECTIVES AS STATED IN THE P.I.L.**

* * * * *

We considered this material instance of noncompliance in forming our opinion on whether the RII project's fund accountability statement for the period from July 1, 1989 through December 31, 1992 is presented fairly, in all material respects, in conformity with cash disbursement basis of accounting, and this report does not affect our report dated July 8, 1993, on that fund accountability statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the RII project complied, in all material respects, with the provisions referred to in the fourth



paragraph of this report, with respect to items not tested, nothing came to our attention that caused us to believe that the RII project had not complied, in all material respects, with those provisions.

This report is intended for the information of the RII project management and others within the organization and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Price Waterhouse

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NUMBER 99
RELATED TO THE REGIONAL IRRIGATION IMPROVEMENT PROJECT
UNDER USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT NO. 263-0132

ADDITIONAL INFORMATION

FUND ACCOUNTABILITY STATEMENT
AS INCURRED IN EGYPTIAN POUNDS

FOR THE PERIOD FROM JULY 1, 1989 THROUGH DECEMBER 31, 1992

	<u>Budget</u>	<u>Actual</u>	<u>Reclassification</u>	<u>Questioned Costs</u>	
				<u>Ineligible</u>	<u>Unsupported</u>
Receipts		LE 2,565,379			
Expenditures:					
Support personnel	LE 294,880	228,635	LE (80)	LE 55,234	LE 7,532
Vehicle operation and maintenance	640,984	470,726	(1,959)	33,465	18,165
Office supplies	132,217	85,716	45	218	91
Office equipment and furniture	597,268	501,573	-	253,000	6,020
Office renovation	83,541	22,563	60	-	-
Vehicle insurance	-	-	-	-	-
Travel and per diem	757,731	637,456	(192)	700	54,067
Training	3,758	1,914	-	-	-
Other support costs	<u>215,372</u>	<u>115,227</u>	<u>2,126</u>	<u>2,961</u>	<u>-</u>
Total expenditures	LE <u>2,725,751</u>	<u>2,063,810</u>	LE <u>-</u>	<u>345,578</u>	<u>85,875</u>
Other income					
Cash:				70	-
Per fund accountability statement		501,569			
Per bank		<u>489,832</u>			
Cash balance shortage		LE <u>11,737</u>			
Total questioned cost				LE <u>345,648</u>	LE <u>97,612</u>

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MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

PROJECT IMPLEMENTATION LETTER NUMBER 99
RELATED TO THE REGIONAL IRRIGATION IMPROVEMENT PROJECT
UNDER USAID/EGYPT
IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

ADDITIONAL INFORMATION

QUESTIONED COSTS
DETAILED OF AMOUNTS
AS INCURRED IN EGYPTIAN POUNDS

FOR THE PERIOD FROM JULY 1, 1989 THROUGH DECEMBER 31, 1992

Our audit procedures identified the following invoiced costs that are ineligible or unsupported.

<u>Item Description</u>	<u>Converted to US \$</u>	<u>Questioned Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
A. Support personnel:			
(1) Temporary daily contract employee salaries. Only full-time salaried employees are specified in the project budget.	\$ 1,482	LE 4,476	LE -
(2) Error resulting in an over billing to USAID/Egypt. Menia governorate Check # 1104849 March 1992	47	-	141
(3) Error resulting in double billing to USAID/Egypt. Check # 1049468 September 1991 March 1992	422	-	1,274

Converted to
US \$

Questioned Costs
Ineligible Unsupported

Item Description

A. Support personnel (Cont.):

- (4) Salaries and other payroll-related expenditures not supported by receipts, payroll sheets, or other source documents.

<u>Check No.</u>	<u>Date</u>	<u>Questioned Amount</u>
6705-6707	Oct. 89	232
999598	Aug. 91	2,815
1104808	Sep. 91	13
1104886	Mar. 92	1,541
1179031	Mar. 92	<u>1,328</u>
	Total	<u>5,929</u>

(Based upon supporting documentation received as part of management comments, this finding has been reduced from LE 6,266 initially questioned.)

\$ 1,963

LE -

LE 5,929

- (5) Salaries for two engineers not authorized in the budget agreement. The Shubra engineer was paid for 26 months and the Menia engineer was paid for 9 months.

1,124

3,394

-

<u>Item Description</u>	<u>Converted to US \$</u>	<u>Questioned Costs</u> <u>Ineligible Unsupported</u>	
A. Support personnel (Cont.):			
(6) Employer's share of social security for the audit period. GOE taxes are ineligible for USAID/Egypt reimbursement.	\$ 2,909	LE 8,784	LE -
(7) Consultant's salary not provided for in the budget. Amounts were incurred from September 1, 1989 to December 31, 1992.	9,271	28,000	-
(8) Salaries paid to individuals without contracts with the project.			

<u>Check No.</u>	<u>Date</u>	<u>Questioned Amount</u>
999576	Sep. 91	68
1049519	Sep. 91	<u>120</u>
	Total	<u>188</u>

(Based upon supporting documentation received as part of management comments, this finding has been reduced from LE 3,538 initially questioned.)

62	-	188
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.42

Item Description

Converted to
US \$

Questioned Costs
Ineligible Unsupported

A. Support personnel (Cont.):

(9) Extra effort reward for
drivers not approved by
USAID/Egypt.

<u>Check No.</u>	<u>Date</u>	<u>Questioned Amount</u>					
1179029	Mar. 92	19					
74283	Nov. 92	39					
74325	Dec. 92	19					
74311	Dec. 92	<u>38</u>					
	Total	<u>115</u>	\$	38	LE	115	LE -

(10) Numerous overtime and
employee bonuses not
approved by USAID/
Egypt.

<u>Check No.</u>	<u>Date</u>	<u>Questioned Amount</u>
6696	Oct. 89	60
15417	Jan. 90	185
10436	Jan. 90	45
10440	Jan. 90	164
10436	Jan. 90	52
10442	Jan. 90	20
10448	Jan. 90	260
999571	May. 91	559
999588	May. 91	248
999556	May. 91	130
999564	May. 91	1,281
1049511	Aug. 91	116
1049533	Aug. 91	238
1049470	Aug. 91	150
999594	Aug. 91	160
1049492	Aug. 91	303

<u>Item Description</u>			<u>Converted to</u>	<u>Questioned Costs</u>	
			<u>US \$</u>	<u>Ineligible</u>	<u>Unsupported</u>
A. Support personnel (Cont.).					
1049468	Sep. 90	293			
1049535	Sep. 91	443			
1049545	Sep. 91	71			
1104810	Sep. 91	404			
1179016	Mar. 92	621			
1179037	Mar. 92	1,064			
1104849	Mar. 92	398			
1104805	Mar. 92	357			
1104886	Mar. 92	676			
110402	Mar. 92	110			
1049468	Mar. 92	293			
74291	Mar. 92	626			
74297	Nov. 92	52			
74330	Dec. 90	678			
31840	Jun. 90	<u>203</u>			
	Total	<u>10,465</u>	\$ <u>3,465</u>	LE <u>10,465</u>	LE <u>-</u>
Total support personnel			<u>20,783</u>	<u>55,234</u>	<u>7,532</u>

B. Vehicle operation and maintenance:

- 1) Error resulting in an over billing to USAID/Egypt.

<u>Check No.</u>	<u>Date</u>	<u>Questioned Amount</u>		
1140368	Mar. 92	89		
999598	Aug. 91	251		
15412	Jan. 90	36		
10410	Jan. 91	<u>42</u>		
	Total	<u>418</u>	138	- 418

Converted to
US \$

Questioned Costs
Ineligible Unsupported

Item Description

B. Vehicle operation and
maintenance (Cont.):

(2) Traffic fines for
drivers.

<u>Check No.</u>	<u>Date</u>	<u>Questioned Amount</u>					
10437	Dec. 90	51					
1100846	Mar. 92	5					
6697	Nov. 89	<u>65</u>					
	Total	<u>121</u>	\$	40	LE	121	LE -

(3) Stamp tax payments
related to car license
renewal. GOE taxes are
ineligible for USAID/Egypt
reimbursement.

<u>Check No.</u>	<u>Date</u>	<u>Questioned Amount</u>					
1104835	Nov. 91	70					
1104834	Nov. 91	<u>65</u>					
	Total	<u>135</u>		45		135	-

(4) Vehicle # 122082 was
retained in the
Alexandria customs
office for 722 days
@ LE 20 per day before
being released by the
RII project. Number
of days taken due to
negligence is considered
unreasonable. The

<u>Item Description</u>	<u>Converted to</u>	<u>Questioned Costs</u>	
	<u>US \$</u>	<u>Ineligible</u>	<u>Unsupported</u>
B. Vehicle operation and maintenance (Cont.):			
maximum number of days needed to release a car is three.	\$ 4,762	LE 14,380	LE -
(5) Numerous car license renewal fees not supported by source documents.	1,285	-	3,881
(6) Expenditures not supported by source documents.			

<u>Check No.</u>	<u>Date</u>	<u>Questioned Amount</u>
1104841	Mar. 92	2,287
1104879	Nov. 91	852
31892	Sep. 90	947
1179032	Mar. 92	1,045
10428	Dec. 90	120
13915	Jun. 92	463
13880	Jun. 92	20
15458	Mar. 90	196
10411	Dec. 90	121
1104878	Nov. 91	800
15402	Jan. 90	777
6714	Jan. 90	1,542
15481	Mar. 90	9
15499	Jun. 90	263
31879	Sep. 90	505
31846	Sep. 90	529
10429	Dec. 90	597

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<u>Item Description</u>	<u>Converted to US \$</u>	<u>Questioned Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>

B. Vehicle operation and maintenance (Cont.):

980851	Jan. 91	<u>2,793</u>		
Total		<u>13,866</u>		

(Based upon supporting documentation received as part of management comments, this finding has been reduced from LE 14,621 initially questioned.

\$ 4,591		LE -		LE 13,866
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(7) Operation expenses for 15 cars not used by the project. Amount questioned is estimated based on the following calculation: 15/375 (cars in the RII vehicle maintenance pool including the 15 not used in the project) = 4% x total vehicle maintenance expenditures of LE 640,984.

		<u>6,235</u>		<u>18,829</u>	<u>-</u>
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Total vehicle operation and maintenance		<u>17,096</u>		<u>33,465</u>	<u>18,165</u>
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C. Office supplies:

(1) Numerous sales tax payments. GOE taxes are ineligible for USAID/Egypt reimbursement.

		72		218	-
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- 47

<u>Item Description</u>	<u>Converted to</u>	<u>Questioned Costs</u>	
	<u>US \$</u>	<u>Ineligible</u>	<u>Unsupported</u>
C. Office supplies:			
(2) Unsupported. Check # 15402, Jan. 90	\$ <u>30</u>	LE <u>-</u>	LE <u>91</u>
Total office supplies	<u>102</u>	<u>218</u>	<u>91</u>

D. Office equipment and furniture:

(1) Cost of 22 fax machines
(The amount of \$ 83,775 was initially questioned as unsupported. As part of management comments, supporting documentation represented MPWWR as the purchaser. The original amount of \$ 83,775 continues to be questioned based on reasonableness. As there are only six satellite offices included in the RII project, the purchase of 22 fax machines is not a reasonable use of project funds. In addition, we were not able to physically inspect the fax machines to determine their existence.)
Check # 6669, Oct. 89

83,775	253,000	-
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48'

	<u>Converted to</u> <u>US \$</u>	<u>Questioned Costs</u> <u>Ineligible Unsupported</u>	
<u>Item Description</u>			

D. Office equipment and furniture (Cont.):

(2) Purchase of office furniture from Mobica Co. not supported with invoices.

<u>Check No.</u>	<u>Date</u>	
31843	June 90	
1049537	Aug. 91	

(Based upon supporting documentation received as part of management comments, this finding has been reduced from LE 13,415 initially questioned. \$ - LE - LE -

(3) Computer maintenance services not supported by maintenance contracts.

		Questioned	
<u>Check No.</u>	<u>Date</u>	<u>Amount</u>	
1049509	Aug. 91	900	
1179100	May. 92	<u>5,120</u>	
	Total	<u>6,020</u>	<u>1,993</u>
			<u>-</u>
			<u>6,020</u>

Total office equipment and furniture	<u>85,768</u>	<u>253,000</u>	<u>6,020</u>
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Converted to
US \$

Questioned Costs
Ineligible Unsupported

Item Description

E. Travel and per diem:

- (1) Error resulting
in an over billing to
USAID/Egypt.

<u>Check No.</u>	<u>Date</u>						
10434	Dec. 90	\$	12	LE	-	LE	37

- (2) Unapproved travel
expenditures.

<u>Check No.</u>	<u>Date</u>	<u>Amount</u>	<u>Questioned</u>			
10438	Dec. 90	304				
1049512	Aug. 91	<u>395</u>				
	Total	<u>699</u>	231	-		699

- (3) Numerous unsupported
travel expenditures.

<u>Check No.</u>	<u>Date</u>	<u>Amount</u>	<u>Questioned</u>
1104888	Dec. 91	2,485	
1049489	Jul. 91	142	
1049496	Jul. 90	164	
31844	Jun. 90	206	
980885	Jan. 91	4,256	
1049481	Jul. 91	5,155	
980856	Jan. 91	1,812	
1049540	Aug. 91	5,491	
980856	Jan. 91	1,812	
980874	Jan. 91	524	
980879	Jan. 90	295	
31831	Jun. 90	2,110	
1179006	Mar. 92	179	
15449	Jan. 90	1,094	
1049484	Jul. 91	182	
980891	Jan. 91	4,180	

Converted to
US \$

Questioned Costs
Ineligible Unsupported

Item Description

E. Travel and per diem (Cont.):

1179019	Mar. 92	2,080			
13928	Jul. 92	378			
74270	Nov. 92	1,750			
15490	Apr. 90	2,745			
15493	Apr. 90	2,070			
15496	Apr. 90	2,455			
31803	Apr. 90	1,915			
31804	Apr. 90	525			
31805	Apr. 90	2,050			
31830	Jun. 90	1,850			
31802	Jun. 90	4,800			
31885	Sep. 90	600			
1104804	Sep. 91	<u>26</u>			
	Total	<u>53,331</u>	\$ 17,659	LE -	LE 53,331

(4) Bonuses paid to drivers.

<u>Check No.</u>	<u>Date</u>			
13922	Jul. 92	<u>232</u>		<u>700</u>
				<u>-</u>
Total travel and per diem		<u>18,134</u>		<u>700</u>
				<u>54,067</u>

F. Other support costs:

(1) Numerous stamp taxes and other miscellaneous ineligible items. GOE taxes are ineligible for USAID/Egypt reimbursement.	484	1,461
--	-----	-------

Converted to
US \$

Questioned Costs
Ineligible Unsupported

Item Description

F. Other support costs (Cont.):

(2) T.V. set for a furnished flat in Minia should be included in furnished flat-not as an additional purchase.	\$ <u>497</u>	LE <u>1,500</u>	LE <u>-</u>
Check # 980899, Feb., 91			
Total other support costs	<u>981</u>	<u>2,961</u>	<u>-</u>

G. Other income:

(1) Training costs related to fiscal year 7/1/91 through 6/30/92 which should be reimbursed by the GOE according to the PIL No. 99, Amendment 4.	<u>23</u>	<u>70</u>	<u>-</u>
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H. Cash:

(1) Amount paid from the USAID/Egypt bank account, but not supported with expenditure records. This amount does not include expenditures made for which a legitimate receivable from the GOE has been recorded.	<u>3,886</u>	<u>-</u>	<u>11,737</u>
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TOTAL QUESTIONED COSTS \$	<u>146,773</u>	LE <u>345,648</u>	LE <u>97,612</u>
		LE 443.260	

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MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
REGIONAL IRRIGATION IMPROVEMENT PROJECT

MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

MINISTRY OF PUBLIC WORKS
AND WATER RESOURCES

IRRIGATION IMPROVEMENT DEPARTMENT
FUM EL-ISMAILIA IRRIGATION BLDG.
SHOUSHA, EL-MEZALAT
KHALAFABY, POST NO. 1990
PHONE 643-755, 645-535



IRRIGATION IMPROVEMENT PROJECT

وزارة الأشغال العامة
والبنية التحتية
الإدارة المركزية لتطوير الري
مشروع تطوير الري
شماره للاتصالات: 643-755
ص.ب. 1990 الخلفاء
ت. 645-535

Oct. 31, 1993

To : MR. David Smith,
IIP - PROJECT OFFICER, USAID

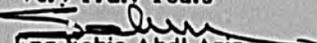
From : Eng. Yehia Abdl-Aziz
Project Director IIP

Dear Mr. Smith,

Here we inclose the project accountant answer for the comments deliver by the auditors (Water House) on the project expenditure. For the period from Sept. 89 through Dec. 92.

Please take the necessary action needed.

Very Truly Yours


Eng. Yehia Abdl-Aziz
Project Director IIP

C.C. Water House Auditey Firm

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
REGIONAL IRRIGATION IMPROVEMENT PROJECT

MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

A - Support Personnel

(1-A) Contract copies are attached.

(2-A) Total is right that check No. 1104849 its amount is 8937.99 which its balance is 9963.29 with cheque No. 110-000 as shown in attached.

(3-A) Cheque was Pending in September 1991 and its balance in March 1992.

(4-A) Void Cheque

Documents copies are attached.
Documents copies are attached.
Documents copies are attached.
This will be taken into consideration in future.
Documents copy is attached.
This will be taken into consideration in future.
This will be taken into consideration in future.
Documents copy is attached.

(5-A) Contract copies are attached.

(6-A) This matter is presented to the arranging committee to take necessary decision.

(7-A) This consultant works in Water Directing Fields in Upper Egypt directorates and represents any foreign or local Consultant. Cardinality its cost should be paid by the project and he will ask for approval of taking his salary from the AID and it should be included in the project's budget.

(8-A) Contract copies are attached.
Contract copies are attached.
Contract copies are attached.
Contract copies are attached.
Contract copies are attached.

(9-A) This will be taken into consideration in future.
This will be taken into consideration in future.
This will be taken into consideration in future.
This will be taken into consideration in future.

(10-A) These amounts of money were paid at the instruments given by the arrangement committee in which a member from the AID attended and it is approved by the Minister (Engineer)

B- Vehicle Operation and Maintenance

(1-B) Total is right compare to the attached schedules.

(2-B) Traffic firms are to be paid by drivers, but expenses paid of for obtaining fine certificate which should be obtained to review car license.

(3-B) Expenses paid for renewing car license are not taxes out expenses for renewing license.

(4-B) Attached herewith a copy of the AID's Approved for charging that vehicle No. 26813 as importing it is against Egyptian Govern Customs Instructions. And the CID is the Consultant Office responsible for this.

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
REGIONAL IRRIGATION IMPROVEMENT PROJECT

MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

(5-B) These expenses are miscellaneous paid for example for painting metal sheets or for the technician to raise trays off the vehicle or for making copies of documents or for obtaining driving license and it is difficult to obtain bills from the technician ... etc.

(6-B) Looking for documents.
Documents copies are attached.

(7-B) All Vehicles are serving the project's targets inside the organizational construction of the Ministry in which the project is functioning inside its bordus.

C- Office Supplies

(1-C) This will be taken into consideration in future, as the person in charge of payment has been instructed to take this into his consideration.

(2-C) This cheque is supported by receipts.

D- Office Equipment and Furniture

(1-D) Bill copies are attached herewith.

(2-D) Mobica Bill copy has already been attached. A contract copy is attached herewith and it is a conclusion list and cost is paid after finalizing the job required according to the contract expected with the contractor.

(3-D) Maintenance Contract copy is attached herewith

E- Travel and Per Diem

(1-E) Expenditures are money distributed as salaries for persons with contracts in the project and increase is paid according to arranging committee statement.

(2-E) Per-Diem is paid according to arranging Committee decision up till 17/7/90 approved by the Minister himself (copy is attached herewith).

(3-E) Looking for documents.

(4-E) This will be taken into consideration in future.

F- Other Support Costs

(1-F) This will be taken into consideration in future.

(2-F) This will be taken into consideration in future.

G- Other Income and Cash

(1-G) This will be taken into consideration in future.

(2-G) Looking for documents.

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MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
REGIONAL IRRIGATION IMPROVEMENT PROJECT

AUDITOR'S RESPONSE

A. Support personnel:

- (1) We are not questioning the existence of contracts for temporary daily employees, rather we are questioning the allowability of these employees because they are not included in the detailed salary budget. Therefore, we continue to question this cost.
- (2) Over billed amount to USAID/Egypt is still questioned. RII management provided support which did not address our finding.
- (3) Double-billed check is still questioned. Management provided only a copy of the double-billed check, but did not address our finding that the check was double-billed to USAID/Egypt.
- (4) Support for the following checks was provided:

Check # 10433	(204)
74261	(17)
999570	(58)
1049513	(58)
Original amount questioned at A(4)	<u>6,266</u>
	<u>5,929</u>
- (5) The finding was not questioned because of the lack of contracts, but rather these two engineers exceeded the number that was allowed in the detailed budget. Amount remains questioned.

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MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
REGIONAL IRRIGATION IMPROVEMENT PROJECT

AUDITOR'S RESPONSE

A. Support personnel (Cont.):

- (6) Management is reviewing this finding. However, employers share of social security tax is not an allowable cost.
- (7) No approval from USAID/Egypt has been obtained to pay consultant salary. Therefore, amount remains questioned.
- (8) Contracts were provided for two employees:
- | | |
|-------------------------------------|------------|
| Original amount questioned at A (8) | 3,538 |
| Amounts accepted | (2,970) |
| Amount questioned | <u>188</u> |
- (9) No management comment related to this finding was received. Therefore amount remains questioned.
- (10) Management provided RII committee approval; however, USAID/Egypt approval is required which was not provided in their response. Therefore, we continue to question this cost.

B. Vehicle operation and maintenance:

- (1) Schedules attached with management comments do not provide sufficient evidential matter. That is, we were not able to identify what the schedules related to. Therefore, this finding remains questioned.

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MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
REGIONAL IRRIGATION IMPROVEMENT PROJECT

AUDITOR'S RESPONSE

B. Vehicle operation and maintenance (Cont.):

- (2) Finding relates to driver's, fines, not car license renewal as asserted by management. This finding remains questioned.
- (3) We do not agree with management comments. The item relates to stamp tax payment for car license renewals.
- (4) In a letter dated March 13, 1990 USAID/Egypt, authorized RII to use up to LE 16,500 from the local operating account to release the subject vehicle from Customs in order to avoid the destruction of the vehicle. However, USAID/Egypt acknowledged that the ultimate responsibility for payment rested with the party responsible for the mistakes which led to the vehicle being retained so long by Customs.

RII management claims that another party "CID" is responsible. Therefore, RII should seek payment from them and remit same to USAID/Egypt.

- (5) RII management acknowledges that this finding is unsupported.
- (6) Support was provided for Check # 13882 in the amount of LE 755 reducing this finding to LE 13,866.
- (7) The Ministry & RII are two separate entities. Amount remains questioned.

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MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
REGIONAL IRRIGATION IMPROVEMENT PROJECT

AUDITOR'S RESPONSE

C. Office supplies:

- (1) No comment required; GOE taxes are unallowable costs.
- (2) Support provided is not applicable to our finding. Therefore, amount remains questioned.

D. Office equipment and furniture:

- (1) Cost of 22 fax machines. The amount of \$ 83,775 was initially questioned as unsupported. As part of management comments, supporting documentation represented MPWWR as the purchaser. The original amount of \$ 83,775 continues to be questioned based on reasonableness. As there are only six satellite offices included in the RII project, the purchase of 22 fax machines is not a reasonable use of project funds. In addition, we were not able to physically inspect the fax machines to determine their existence.
- (2) Support was provided by RII. Finding is deleted from our report.
- (3) The signed Contract is with MRWWR, not RII. Therefore amount remains questioned.

E. Travel and per diem:

- (1) Management comment does not address the issue.
- (2) Approval was given by MPWWR not USAID/Egypt. Amount remains questioned.

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MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
REGIONAL IRRIGATION IMPROVEMENT PROJECT

AUDITOR'S RESPONSE

Findings E(3) - H(1):

These audit findings are either being reviewed by RII management or their document search is not complete.



CAIRO, EGYPT

December 14, 1993

MEMORANDUM

TO: Philippe L. Darcy, RIG/A/C

FROM: Amanda Levenson, A/AD/FM

SUBJECT: NFA Report of the Ministry of Public Works and Water Resources (MPWWR) Project Implementation Letter No. 99 Related to the Regional Irrigation Improvement (RII) Component of the USAID/Egypt Irrigation Management Systems Project No. 263-0132 - Draft Report

Mission is working with the implementing agency to resolve the three recommendations under the subject audit, and has no comments to offer at this time. Attached is a copy of a letter dated November 29, 1993, addressed to the MPWWR requesting them to address all the three recommendations, including inadequate internal control procedures and non-compliance issues. Based on this letter, Mission requests resolution of Recommendations 2 & 3. Please issue the final report.

Att: a/s

[Handwritten signature]
12/15/93
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106 Kasr El Eini st
Cairo Center
Garden City

November 29, 1993

Engineer Yehia Abd El Aziz
Project Director
Irrigation Improvement Project
Ministry of Public Works
and Water Resources

Subject: Irrigation Improvement Project
Non-Federal Audit Report of
PIL 99
Local Operating Budget

Dear Engineer Yehia:

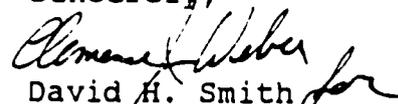
On November 23, 1993 I provided you with the draft audit report on local expenditures related to PIL 99, the local operating budget. The report contains three recommendations that need to be satisfactorily addressed before USAID can close them.

Recommendation No. 1 concerns costs \$ 146,773 consisting of ineligible costs of \$ 114,454 and unsupported costs of \$33,319. Recommendation No. 1 is detailed on pages 13 through 19 of the audit report. IIP is requested to prepare and submit their full response, supported by appropriate documentation, for USAID review by January 30, 1994. Your response should include documentation to support those cost found to be unsupported by the audit and justification for those costs determined to be ineligible. For any instances in which you agree with the audit findings, your response should include a list of these costs.

Recommendations No. 2 and 3 concern matters related to inadequate internal control procedures and non-compliance issues. They are detailed on pages 23 through 34 and pages 37 through 38 of subject report, respectively. You are requested to advise us before December 31, 1993 of the actions you plan to take to address these recommendations. Closure of recommendations No. 2 and 3 will be based upon full implementation of the corrective actions.

If you need any assistance or require clarification on any audit issue, please contact me.

Sincerely,


David H. Smith
Project Officer

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